

Message Text

SECRET

PAGE 01 THE HA 05663 290640Z

14

ACTION EUR-10

INFO OCT-01 SS-14 ISO-00 NSCE-00 NSC-10 CIAE-00 INR-10

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FM AMEMBASSY THE HAGUE

TO SSCSTATE WASHDC 2673

INFO AMEMBASSY MOSCOW

AMEMBASSY PARIS

S E C R E T THE HAGUE 5663

LIMDIS

E.O. 11652: G

TAGS: ENRG, NL, UR

SUBJ: SOVIET AND FRENCH NAPHTHA SHIPMENTS TO DOW CHEMICAL

REF: HAGUE 5452

1. EUROPEAN PROCUREMENT CHIEF (MARSHALL) FOR DOW CHEMICAL COMPANY (RESIDENT HERE) TELLS US THAT HE HAS BEEN SUMMONED TO MOSCOW FOR UNEXPECTED JAN 1 INTERVIEW WITH HEAD OF SOVIET PETROLEUM COMPANY. SUMMONS MAY BE RELATED TO RECENT CHRISTIAN SCIENCE MONITOR REPORTING ON USSR WHICH SOVIET OFFICIAL ANGRILY DESCRIBED AS ANTI-SOVIET WHEN HE PHONED MARSHALL. ITEM OR ITEMS IN QUESTION NOT CLEARLY IDENTIFIED.

2. AS REPORTED REFTEL DOW HAS BEEN IMPORTING ABOUT 1.1 MILLION TONS OF SOVIET NAPHTHA ANNUALLY AS FEED STOCK FOR TERNEUZEN PLANT. DOW HAS ASKED SOVIETS TO RAISE TONNAGE TO 1.4 MILLION RETURN FOR DOW ACQUIESCENCE IN LIBERALIZATION OF PRICE ESCALATION CLAUSE IN LONG TERM CONTRACT. THIS PROPOSAL IS NOW BEING CONSIDERED IN MOSCOW. ALTHOUGH RUSSIANS HAVE THUS FAR

SECRET

SECRET

PAGE 02 THE HA 05663 290640Z

BEEN PUNCTILIOUS IN MEETING THEIR OBLIGATIONS

MARSHALL CONSIDERS LATEST SUMMONS POTENTIALLY OMINOUS. IF MEETING RESULTS IN THREAT TO TERNEUZEN NAPHTHA SUPPLY, MARSHALL INDICATES DOW MAY SEEK USG DIPLOMATIC ASSISTANCE, SINCE SOVIET NAPHTHA ACCOUNTS FOR THIRD OF TERNEUZEN FEEDSTOCK AND IS VITAL TO CONTINUED OPERATION. MARSHALL ACKNOWLEDGED THAT DOW COULD EXERT SOME PRESSURE ON RUSSIANS BY THREATENING TO WITHHOLD TERNEUZEN DELIVERIES OF BASIC CHEMICAL PRODUCTS (PROJECTED AT \$57 MILLION IN 1974) BUT THIS LEVERAGE IS NOT GREAT.

3. IN RELATED DEVELOPMENT, MARSHALL SAID FRENCH FIRM CFP, WHICH SUPPLIES ANOTHER THIRD OF TERNEUZEN'S NAPHTHA, HAS BEEN THREATENING TO INVOKE FORCE MAJEURE BECAUSE FRENCH PETROCHEMICAL INDUSTRY IS NAPHTHA-SHORT. CFP NAPHTHA HAS BEEN SUPPLIED FROM FRANCE BUT WILL COME FROM NEW TOTAL REFINERY IN VLISSINGEN STARTING NEXT WEEK WHEN IT GOES ON STREAM. DOW HAS ALREADY DISCUSSED WITH GON POSSIBILITY OF APPLYING PRESSURE ON FRANCE THROUGH NATURAL GAS SHIPMENTS IF CFP DISHONORS CONTRACT, BUT FACT THAT NEW CFP SOURCE IS ON DUTCH TERRITORY COULD GIVE GON ALL LEVERAGE IT NEEDS.

4. MARSHALL SAID REMAINING NAPHTHA SOURCES, CHIEFLY REFINERIES IN ROTTERDAM, HAVE ALREADY INVOKED FORCE MAJEURE TO REDUCE DELIVERIES BY UP TO 25 PERCENT. GON EFFORTS TO ENSURE ADEQUATE RAW MATERIAL SUPPLIES (AT LEAST 80 PERCENT OF NORMAL) TO LOCAL PETROCHEMICAL INDUSTRY HAVE NOT YET SHOWN ANY SIGNS OF MITIGATING THIS PROBLEM.

5. MARSHALL NOTED THAT DOW HAS BEEN FORCED TO ESCALATE PRICES OF ITS BASIC CHEMICAL PRODUCTS "ALARMINGLY" OVER PAST FOUR MONTHS AND FURTHER RISE OF 25 PERCENT LIKELY IN 1974. CUSTOMERS HAVE THUS FAR BEEN WILLING TO ABSORB THIS BECAUSE OF STRONG DEMAND FOR INTERMEDIATE PRODUCTS BUT MARSHALL IS NOT CERTAIN HOW LONG THAT WILL LAST. IN ANY EVENT HE FORESEES HEAVY AND WIDESPREAD INFLATIONARY IMPACT THROUGHOUT DUTCH ECONOMY FROM RISING FUEL AND FEEDSTOCK COSTS. FOR DOW EUROPE ALONE FEEDSTOCK COSTS IN 1974 WILL RISE BY \$170

SECRET

SECRET

PAGE 03 THE HA 05663 290640Z

MILLION OR ROUGHLY SAME AS 1973 PROFITS (ON TOTAL SALES OF \$700 MILLION).
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